

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>ALCONA COMMUNITY SCHOOLS</b>	County <b>ALCONA</b>
Audit Date <b>06/30/2005</b>	Opinion Date <b>08/25/2005</b>	Date Accountant Report Submitted to State: <b>11/04/2005</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>STEPHENSON, GRACIK &amp; CO., P.C.</b>			
Street Address <b>325 NEWMAN STREET, PO BOX 592</b>	City <b>EAST TAWAS</b>	State <b>MI</b>	ZIP <b>48730</b>
Accountant Signature  <b>Donald W. Brannan CPA</b>		Digitally signed by Stephenson, Grack and Co., P.C. DN: cn=Stephenson, Grack and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

ALCONA COMMUNITY SCHOOLS  
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2005

## AUDITORS' REPORT

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# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

August 25, 2005

## Independent Auditors' Report

Board of Education  
Alcona Community Schools  
Alcona County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alcona Community Schools, Alcona County, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Alcona Community Schools, Alcona County, Michigan, as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2005, on our consideration of Alcona Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alcona Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Alcona Community Schools.

Board of Education  
Alcona Community Schools  
August 25, 2005  
Page Two

The combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Graub & Co., P.C.*





SHAWN THORNTON  
Superintendent

P.O. Box 249  
Lincoln, Michigan

PH 989-736-8685  
Fax 989-736-6261

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the Fiscal Year Ended June 30, 2005**

As management of the Alcona Community Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school district's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program for the Instruction, Support Services, Athletics and Food Service.

#### **FINANCIAL HIGHLIGHTS**

Our financial statements provide these insights into the results of this year's operations. The overall condition of the funds and governmental activities declined slightly during the 2004-2005 school year. The General Operating Fund Balance declined \$567,853 but a miscalculation in taxable values submitted to the State resulted in a \$257,000 deduction to our State Aid payment which will be paid in the 2005-2006 school year. Net effect if the payment would have been made would show that the fund balance would have declined by only \$310,853 which was expected. Local tax revenues and taxable values remain strong and account for 54% of total revenues to the general fund. State and Federal resources are flat and remain a concern as the economy is expected to recover very slowly and affect state aid and federal payments. These economic conditions and increased costs associated with insurances, retirement, wages and benefits will put our fund equity at risk in coming years. Every effort will be made to control costs and increase revenues in the upcoming school year.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4,916,083 (net assets). Of this amount, \$496,344 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students and creditors.

The District's total net assets increased by \$149,045. This represents the degree to which increases in ongoing revenues have surpassed similar increases in ongoing expenses.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,311,590, a decrease of \$699,012 in comparison with the prior year. Of this amount, \$1,015,897 is available for spending at the District's discretion (unreserved fund balance). This represents 10% of the total expenditures of these funds.

#### **USING THIS ANNUAL REPORT**

This discussion and analysis is intended to serve as an introduction to the Alcona Community Schools basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Government-Wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.



ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2005

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Alcona Community School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, support services, athletic service, and food service. The District does not currently have any business-type activities.

The government-wide financial statements can be found in Exhibits A and B of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The District does not currently have any proprietary funds.

Governmental Funds

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund and 2005 Refunding Bond Debt Retirement Fund which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* presented in Exhibits J and K of this report.

The District adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the general fund and combined special revenue funds to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in Exhibits C and E of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2005

The basic fiduciary fund financial statement can be found on Exhibit G of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in Exhibit H of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the District's major funds. Required supplementary information can be found in Exhibit I of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found in Exhibits J and K of this report.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplementary Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's net assets were \$4,916,083 at June 30, 2005. Of this amount, \$496,344 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the District's governmental activities.

TABLE 1  
NET ASSETS

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
Current Assets	\$ 2,463,109	\$ 2,592,063
Noncurrent Assets	<u>10,263,143</u>	<u>10,402,556</u>
Total Assets	<u>12,726,252</u>	<u>12,994,619</u>
Current Liabilities	816,742	581,461
Noncurrent Liabilities	<u>6,993,427</u>	<u>7,646,120</u>
Total Liabilities	<u>7,810,169</u>	<u>8,227,581</u>
<u>Net Assets</u>		
Invested in Capital Assets – Net of Debt	4,198,617	4,061,868
Restricted	221,122	383,514
Unrestricted	<u>496,344</u>	<u>321,656</u>
Total Net Assets	<u>\$ 4,916,083</u>	<u>\$ 4,767,038</u>



ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2005

The \$496,344 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example), we would have \$421,773 left.

The District's net assets were \$4,916,083 at June 30, 2005. Capital assets, net of debt totaled \$4,198,617. The debt of the District will be paid for by voter approved bond and property tax collected as the debt service comes due. Day-to-day operations will be paid for by property tax, state aid and federal revenues that will be received throughout the year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$496,344 is unrestricted.

TABLE 2  
CHANGES IN NET ASSETS

	Governmental Activities	
	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 323,712	\$ 340,070
Operating Grants and Contributions	3,955,624	4,030,495
General Revenues:		
Current Property Taxes	4,995,437	4,756,125
Investment Earnings	25,740	20,524
Miscellaneous	<u>84,432</u>	<u>92,848</u>
Total Revenues	<u>9,384,945</u>	<u>9,240,062</u>
Functions/Program Expenses:		
Instruction	5,356,054	4,726,322
Supporting Services	2,604,525	2,561,271
Food Services	516,912	451,157
Athletics	145,056	136,613
Interest on Long-Term Debt	233,519	358,435
Unallocated Depreciation	<u>379,834</u>	<u>357,902</u>
Total Functions/Program Expenses	<u>9,235,900</u>	<u>8,591,700</u>
Increase in Net Assets	149,045	648,362
Beginning Net Assets	<u>4,767,038</u>	<u>4,118,676</u>
Ending Net Assets	<u>\$ 4,916,083</u>	<u>\$ 4,767,038</u>

Governmental activities increased the District's net assets by \$149,045.

As reported in our Statement of Activities in Exhibit B, the cost of all of our governmental activities this year was \$9,235,900. However, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$4,995,437 because some of the cost was paid by those who benefited from the programs (\$323,712), by other governments and organizations who subsidized certain programs with grants and contributions (\$3,955,624), and by miscellaneous sources (\$110,172).

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2005

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended June 30, 2005, the District amended the budgets of this major governmental fund a couple of times, none significantly.

General Fund

The general fund actual revenue was \$7,907,781. That amount is above the original budget estimates of \$7,720,018 and below the final amended budget of \$8,179,522. The variance between the actual revenues, the original budget, and the final budget was the result of increased revenues from various sources.

The actual expenditures of the general fund were \$8,304,093, which is above the original budget estimates of \$7,950,649 and below the final amended budget of \$8,408,486. The variance between the actual expenditures, the original budget, and final budget was due to increased costs of insurance, retirement, and other expenses.

The General Fund had total revenues of \$7,907,781 and total expenditures of \$8,304,093 with an ending fund balance of \$1,087,727.

TOTAL REVENUES

The total revenues of the District were \$9,384,945. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,276,138 or 46% of total revenues of \$9,384,945.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$9,944,914. The governmental funds had a net loss in fund balance of \$699,012. The ending fund balance for all governmental funds was \$1,311,590 which represents 13% of current year expenditures. The ending fund balance percentage for the prior year represented 23% of last year's expenditures. This fund balance will be used to cover unforeseen expenses and hedge for future state aid foundation reductions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the District had \$14,834,127 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$4,570,984 in depreciation has been taken over the years. We currently have net book value of \$10,263,143. Total additions for the year were \$259,011.

Long-Term Debt

At June 30, 2005, the District had \$6,375,000 in bonds outstanding.

State statutes limit the amount of general obligation debt that a school district may issue. The current debt limitation for the District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Exhibit H, Note 6 of this report.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan has been stagnant and is expected to be very slow in the coming year. The State Aid Fund for schools has had continued pressure placed on it and funding to local schools remains relatively flat for this year and the past 4 -5 years. The State did increase 'per pupil' funding by \$175/ student but the increase in retirement and health insurances was more than the increase in funding. Fuel costs have affected all areas of operations and will put an additional strain on the budget for the coming year. Federal Title funding remains stable but requirements for its use continues to restrict and dilute the funds. The No Child Left Behind Act will place continued requirements on the district and cost additional funds to implement. The fund balance of the District has been declining and is a concern of the administration. All factors above were considered in the preparation of Alcona Community Schools budget for the 2005 – 2006 school year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Alcona Community School's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Alan Shillair  
Business Manager  
Alcona Community Schools  
51 North Barlow Road  
PO Box 249  
Lincoln, MI 48742  
Office Telephone (989) 736-6212

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2005

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 2)	\$ 1,331,020
Cash with fiscal agent (Note 2)	6,135
Receivables:	
State of Michigan (Note 3)	862,137
Taxes	46,694
Other	61,591
Inventories (Note 1)	77,732
Bond issuance costs - net (Note 1)	77,800
Capital assets - net (Note 4)	<u>10,263,143</u>
 Total Assets	 <u>12,726,252</u>
<u>Liabilities</u>	
Accounts payable	158,531
Salaries payable	360,106
Employee benefits payable	278,024
Due to State of Michigan	18,458
Deferred revenue	1,623
Long-term liabilities:	
Due within one year (Note 6)	682,550
Due in more than one year	<u>6,310,877</u>
 Total Liabilities	 <u>7,810,169</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	4,198,617
Restricted for:	
Debt service	221,122
Unrestricted	<u>496,344</u>
 Total Net Assets	 <u>\$ 4,916,083</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005

		Program Revenues		Net (Expenses) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Government Type Activities
Instruction	\$ 5,356,054	\$ 78,515	\$ 2,729,532	\$ (2,548,007)
Supporting services	2,604,525	13,598	946,907	(1,644,020)
Food services	516,912	205,783	274,800	(36,329)
Athletics	145,056	25,816	4,385	(114,855)
Interest on long-term debt	233,519	0	0	(233,519)
Unallocated depreciation	<u>379,834</u>	<u>0</u>	<u>0</u>	<u>(379,834)</u>
Total	<u>\$ 9,235,900</u>	<u>\$ 323,712</u>	<u>\$ 3,955,624</u>	<u>(4,956,564)</u>
General purpose revenue:				
Current property taxes				4,995,437
Investment earnings				25,740
Miscellaneous				<u>84,432</u>
Total general purpose revenue				<u>5,105,609</u>
Change in net assets				149,045
Net assets - beginning				<u>4,767,038</u>
Net assets - ending				<u>\$ 4,916,083</u>

The accompanying notes to financial statements are an integral part of this statement.



ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
June 30, 2005

	<u>General</u>	<u>2005 Refunding Bond Debt Retirement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents (Note 2)	\$ 1,112,028	\$ 0	\$ 218,992	\$ 1,331,020
Cash with fiscal agent (Note 2)	0	6,135	0	6,135
Receivables:				
State of Michigan (Note 3)	862,137	0	0	862,137
Taxes	41,551	0	5,143	46,694
Other	61,591	0	0	61,591
Due from other funds (Note 8)	9,242	0	1,040	10,282
Inventories (Note 1)	<u>74,571</u>	<u>0</u>	<u>3,161</u>	<u>77,732</u>
Total Assets	<u>\$ 2,161,120</u>	<u>\$ 6,135</u>	<u>\$ 228,336</u>	<u>\$ 2,395,591</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts payable	\$ 158,531	\$ 0	\$ 0	\$ 158,531
Salaries payable	360,106	0	0	360,106
Employee benefits payable	278,024	0	0	278,024
Due to other funds (Note 8)	1,040	0	9,242	10,282
Due to State of Michigan	18,458	0	0	18,458
Deferred revenue (Note 9)	<u>257,234</u>	<u>0</u>	<u>1,366</u>	<u>258,600</u>
Total liabilities	<u>1,073,393</u>	<u>0</u>	<u>10,608</u>	<u>1,084,001</u>
<u>Fund Equity</u>				
Fund balances:				
Reserved:				
Debt service	0	6,135	214,987	221,122
Inventories	74,571	0	0	74,571
Unreserved, reported in:				
General fund	1,013,156	0	0	1,013,156
Special revenue funds	<u>0</u>	<u>0</u>	<u>2,741</u>	<u>2,741</u>
Total fund equity	<u>1,087,727</u>	<u>6,135</u>	<u>217,728</u>	<u>1,311,590</u>
Total Liabilities and Fund Equity	<u>\$ 2,161,120</u>	<u>\$ 6,135</u>	<u>\$ 228,336</u>	<u>\$ 2,395,591</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2005

Total governmental fund balances:	\$ 1,311,590
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:	
Capital asset cost	\$ 14,834,127
Capital asset accumulated depreciation	<u>(4,570,984)</u>
	10,263,143
Other assets not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:	
State of Michigan receivable	256,977
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:	
Bonds payable (net of unamortized discount)	(6,038,754)
Capital lease payable	(25,772)
Compensated absences payable	(419,605)
Retirement incentive payable	<u>(431,496)</u>
Total long-term liabilities	<u>(6,915,627)</u>
Total net assets - governmental activities	<u>\$ 4,916,083</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2005

	General	2005 Refunding Bond Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>				
Local Sources:				
Current property taxes	\$ 4,289,955	\$ 0	\$ 705,482	\$ 4,995,437
Lunch sales	0	0	205,783	205,783
Gate receipts	0	0	25,816	25,816
Medicaid fee for service	41,207	0	0	41,207
Interest on investments	21,820	0	3,920	25,740
Other	101,349	0	5,455	106,804
State sources	2,729,317	0	31,201	2,760,518
Federal sources	538,965	0	242,529	781,494
Interdistrict sources	185,168	0	0	185,168
Total revenue	<u>7,907,781</u>	<u>0</u>	<u>1,220,186</u>	<u>9,127,967</u>
<u>Expenditures</u>				
Current:				
Instruction	5,483,123	0	0	5,483,123
Supporting services	2,600,912	0	0	2,600,912
Food services	0	0	516,912	516,912
Athletics	0	0	145,056	145,056
Debt Service:				
Principal	0	0	370,000	370,000
Refunding bond issuance costs	0	79,100	0	79,100
Interest and fees	0	0	226,390	226,390
Contribution to debt service	0	0	283,000	283,000
Capital outlay	220,058	0	20,363	240,421
Total expenditures	<u>8,304,093</u>	<u>79,100</u>	<u>1,561,721</u>	<u>9,944,914</u>
Excess of revenue over (under) expenditures	<u>(396,312)</u>	<u>(79,100)</u>	<u>(341,535)</u>	<u>(816,947)</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds of refunding bonds	0	4,545,000	0	4,545,000
Refunding bond issuance premium	0	64,453	0	64,453
Capital lease proceeds	32,700	0	0	32,700
Operating transfers in	0	0	204,241	204,241
Operating transfers out	(204,241)	0	0	(204,241)
Payment to refunded bond escrow agent	0	(4,524,218)	0	(4,524,218)
Total other financing sources (uses)	<u>(171,541)</u>	<u>85,235</u>	<u>204,241</u>	<u>117,935</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(567,853)</u>	<u>6,135</u>	<u>(137,294)</u>	<u>(699,012)</u>
Fund balances - beginning of year	<u>1,655,580</u>	<u>0</u>	<u>355,022</u>	<u>2,010,602</u>
Fund balances - end of year	<u>\$ 1,087,727</u>	<u>\$ 6,135</u>	<u>\$ 217,728</u>	<u>\$ 1,311,590</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005

Total net change in fund balances - governmental funds \$ (699,012)

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their  
estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (379,834)	
Capital outlays reported in the governmental funds	<u>240,421</u>	
Net difference		(139,413)

Repayment of bond principal is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the statement of net  
assets. This is the amount of repayments reported as expenditures in  
the governmental funds.

370,000

Lease payments on a capital lease are expenditures in the governmental funds,  
but the repayment reduces long-term liabilities in the statement of net assets. This  
is the principal repayment reported as expenditures in governmental funds.

6,929

Capital lease proceeds are a revenue in the governmental funds, but the proceeds  
are capitalized as the cost of fixed assets in the statement of net assets

(32,700)

The governmental funds report bond proceeds as other financing sources, while  
repayment of bond principal is reported as an expenditure. Also, governmental funds  
report the effect of issuance costs and premiums when debt is first issued,  
whereas these amounts are deferred and amortized in the statement of activities.  
The net effect of these differences in the treatment of general obligation bonds  
and related items is as follows:

General obligation refunding bond proceeds	(4,545,000)	
Payment to refunded bond escrow agent	4,524,218	
Refunding bond issuance costs	79,100	
Contribution to debt service	283,000	
Refunding bond issuance premium	(64,453)	
Amortization of deferred bond costs and bond premiums (net)	<u>(5,620)</u>	
		271,245

Some revenue reported in the statement of activities does not meet availability  
requirements for current financial resources, and, therefore, is not reported as revenue  
in the governmental funds:

State of Michigan receivable	256,977
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The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005

Net change in accrued compensated absences:		
Accrued compensated absences June 30, 2004	\$ 327,197	
Accrued compensated absences June 30, 2005	<u>(419,605)</u>	
		\$ (92,408)
Net change in retirement incentive payable:		
Retirement incentive payable June 30, 2004	638,923	
Retirement incentive payable June 30, 2005	<u>(431,496)</u>	
		<u>207,427</u>
Change in net assets of governmental activities		<u>\$ 149,045</u>

The accompanying notes to financial statements are an integral part of this statement.



ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
June 30, 2005

	<u>2005</u>
<u>ASSETS</u>	
Cash and cash equivalents (Note 2)	<u>\$ 108,773</u>
<u>LIABILITIES</u>	
Due to student groups	<u>\$ 108,773</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alcona Community Schools conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Alcona Community Schools (School District) is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Alcona Community Schools Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by Alcona Community Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund – The General Fund is the general operating fund of the School District. It is used to account for all financial resources, except those required to be accounted for in another fund.

2005 Refunding Bond Debt Retirement Fund – The Fund is used to account for the early payoff of principal and interest of the 1999 School Building and Site Bonds.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2005, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From State of Michigan

This represents amounts receivable from the State of Michigan for federal and state reimbursable programs.

G. Inventory – Supplies

Inventory on government-wide financial statements are stated at cost and are expensed when used.

Inventory on fund financial statements are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.



ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Deferred Charges

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

K. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

N. Property Taxes

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

O. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2004 - August, 2005. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2005.

S. Economic Dependency

The School District received approximately 37% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

T. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

U. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Projects Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Budgetary Policies and Data (Continued)

Alcona Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 1,331,020	\$ 108,773	\$ 1,439,793
Cash with Fiscal Agents	<u>6,135</u>	<u>0</u>	<u>6,135</u>
	<u>\$ 1,337,155</u>	<u>\$ 108,773</u>	<u>\$ 1,445,928</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$ 766,610
Investments in financial institution pooled funds	<u>679,318</u>
Total	<u>\$ 1,445,928</u>

As of June 30, 2005, the School District had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u>\$ 679,318</u>	Daily

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2005, the School District's investment in the investment pool was rated AAAM by Standards & Poor's.

Concentration of Credit Risk

The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserves.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2005, \$680,771 of the School District's bank balance of \$799,957 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign Currency Risk

The School District's investment policy does not address foreign currency risk.



ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from State of Michigan) follows:

<u>Governmental Activities</u>	<u>Amount</u>
State Aid	\$ 754,999
Federal Grants	<u>107,138</u>
Total Governmental Activities	<u>\$ 862,137</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 144,185	\$ 0	\$ 0	\$ 144,185
Capital Assets Being Depreciated:				
Buildings and additions	12,822,623	63,261	0	12,885,884
Site improvements	519,455	8,950	0	528,405
Equipment and furniture	185,199	32,700	0	217,899
School buses	903,654	154,100	0	1,057,754
Construction in progress	<u>18,590</u>	<u>0</u>	<u>(18,590)</u>	<u>0</u>
Subtotal	<u>14,449,521</u>	<u>259,011</u>	<u>(18,590)</u>	<u>14,689,942</u>
Less Accumulated Depreciation for:				
Buildings and additions	(3,273,334)	(259,224)	0	(3,532,558)
Site improvements	(51,946)	(26,421)	0	(78,367)
Equipment and furniture	(91,344)	(25,298)	0	(116,642)
School buses	<u>(774,526)</u>	<u>(68,891)</u>	<u>0</u>	<u>(843,417)</u>
Subtotal	<u>(4,191,150)</u>	<u>(379,834)</u>	<u>0</u>	<u>(4,570,984)</u>
Capital Assets Being Depreciated:	<u>10,258,371</u>	<u>(120,823)</u>	<u>(18,590)</u>	<u>10,118,958</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 10,402,556</u>	<u>\$ (120,823)</u>	<u>\$ (18,590)</u>	<u>\$ 10,263,143</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 5 - SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2005.

NOTE 6 - LONG-TERM LIABILITIES

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest on Note</u>	<u>Total Obligation</u>
A. <u>Bonds Payable</u>				
Energy Conservation Improvement Bonds:				
The bonds dated June 1, 1998 which bear interest at 4.85% to 6.05% are due serially each May 1 through 2008	1998	\$ 225,000	\$ 22,407	\$ 247,407
1999 School Building and Site Bonds:				
The bonds dated August 1, 1999 which bear interest at 4.8% are due serially each May 1 through 2016	1999	1,605,000	215,220	1,820,220
2005 Refunding Bonds:				
The bonds dated April 26, 2005 which bear interest at 3% to 4.25% are due serially each May 1 through 2016	2005	<u>4,545,000</u>	<u>1,447,616</u>	<u>5,992,616</u>
		<u>\$ 6,375,000</u>	<u>\$ 1,685,243</u>	<u>\$ 8,060,243</u>
B. <u>Capital Lease</u>				
Kansas State Bank Copier Lease:				
The lease dated August 12, 2004 is due in monthly payments of \$767 over a period of 48 months	2004	<u>\$ 25,772</u>	<u>\$ 2,612</u>	<u>\$ 28,384</u>

ALCONA COMMUNITY SCHOOLS  
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

The annual principal and interest requirements for long-term debt for the years after June 30, 2005 are as follows:

	Government Activities		
	Principal	Interest	Total
2006	\$ 447,826	\$ 275,133	\$ 722,959
2007	503,326	250,520	753,846
2008	548,858	225,551	774,409
2009	510,762	198,489	709,251
2010	560,000	173,194	733,194
2011-2015	3,130,000	535,218	3,665,218
2016	<u>700,000</u>	<u>29,750</u>	<u>729,750</u>
Total	<u>\$ 6,400,772</u>	<u>\$ 1,687,855</u>	<u>\$ 8,088,627</u>

C. Early Retirement Incentive

The School District offers an early retirement incentive to certain teachers based on years of service and current wage scale payable over a five year period. The amount of retirement incentive liability for Alcona Community Schools at June 30, 2005 was \$431,496 of which \$208,260 was the estimated current portion.

D. Compensated Absences

The School District has contracted obligations to compensate eligible employees for absences from work for sick leave. Eligible employees are allowed to accumulate sick leave and the amounts so accumulated are payable at retirement or resignation subject to contractual limitations based on years of service. Teachers may accumulate up to 180 days of sick leave of which 25% is payable upon retirement. Other employees are covered by similar agreements.

Compensated absences are recorded using the vesting method in accordance with Governmental Accounting Standards Board Statement 16. The amount of accumulated sick and vacation pay liability for Alcona Community Schools was \$419,605 at June 30, 2005, of which \$26,464 was the estimated current portion.

E. Defeasance of Debt

On April 26, 2005 the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2010 and ending in 2016. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2005, \$4,480,000 of bonds outstanding are considered defeased.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

F. Advance Refunding

On April 26, 2005, the School District issued \$4,545,000 of 2005 Refunding Bonds that were placed in an irrevocable trust to refund \$4,480,000 of the 1999 School Building and Site Bonds, and to pay certain costs and expenses relating to the issuance of the 2005 Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$44,218. This amount, combined with the \$283,000 payment required for future debt service payments, is being netted against the new debt and amortized over the life of the new debt issued, which is the same as the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments. Details of the refunding are as follows:

Total Debt Service before 2005 Refunding Bonds	\$ 8,815,888
Total Debt Service after 2005 Refunding Bonds	<u>8,324,580</u>
Total change in Debt Service	491,308
Less: Debt Service Funds to Escrow	<u>283,000</u>
Net Savings (Net of Cost of Issuance)	<u>\$ 208,308</u>

G. Changes in Long-Term Liabilities

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amount Due In One Year
<u>Governmental Activities</u>					
Bonds payable	\$ 6,680,000	\$ 4,545,000	\$(4,850,000)	\$ 6,375,000	\$ 440,000
Deferred amounts for issuance premium	0	64,452	(1,059)	63,393	0
Deferred amounts on refunding	<u>0</u>	<u>(327,218)</u>	<u>5,379</u>	<u>(321,839)</u>	<u>0</u>
Total bonds payable, net	6,680,000	4,282,234	(4,845,680)	6,116,554	440,000
Capital leases	0	32,700	(6,928)	25,772	7,826
Early retirement incentive	638,923	78,095	(285,522)	431,496	208,260
Compensated absences	<u>327,197</u>	<u>92,408*</u>	<u>0</u>	<u>419,605</u>	<u>26,464</u>
Total long-term liabilities	<u>\$ 7,646,120</u>	<u>\$ 4,485,437</u>	<u>\$(5,138,130)</u>	<u>\$ 6,993,427</u>	<u>\$ 682,550</u>

The interest expenditures on long-term obligations for the year were \$233,519.

\*Represents net of additions and retirements for the year.

ALCONA COMMUNITY SCHOOLS  
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005NOTE 7 - OPERATING TRANSFERS

During the year ended June 30, 2005 the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 0	\$ 204,241
Non-major Governmental Funds	<u>204,241</u>	<u>0</u>
	<u>\$ 204,241</u>	<u>\$ 204,241</u>

Individual transfers for the year ended June 30, 2005 consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Food Service	\$ 4,000	General Fund	\$ 4,000
Athletic Fund	114,855	General Fund	114,855
1998 Energy Bond Fund	84,346	General Fund	84,346
1999 Capital Project Fund	<u>1,040</u>	General Fund	<u>1,040</u>
Total	<u>\$ 204,241</u>	Total	<u>\$ 204,241</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2005 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 9,242	\$ 1,040
Non-major Governmental Funds	<u>1,040</u>	<u>9,242</u>
Total	<u>\$ 10,282</u>	<u>\$ 10,282</u>

ALCONA COMMUNITY SCHOOLS  
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

The amounts of interfund receivables and payables for individual funds as of June 30, 2005 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 9,168	Food Service Fund	\$ 9,168
General Fund	74	1999 Bond Fund	74
1999 Bond Fund	<u>1,040</u>	General Fund	<u>1,040</u>
Total	<u>\$ 10,282</u>		<u>\$ 10,282</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 9 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
General Fund:	
State school aid	\$ 256,977
Safe and Drug Free Schools	247
Other	10
Food Service Fund:	
Meal cards	<u>1,366</u>
Total	<u>\$ 258,600</u>

NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2005, the School District incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Capital outlay	\$ 190,316	\$ 220,058	\$ 29,742
Special Revenue Funds:			
Food services	\$ 406,461	\$ 516,912	\$ 110,451

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 11 - RETIREMENT PLANS

Defined Benefit Plan

The School District contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2004, employer contributions were 12.99% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. After September 30, 2004, the contribution rate increased to 14.87% of covered compensation. The contribution requirements of plan members and Alcona Community School District are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2005, 2004 and 2003 were \$677,436, \$576,321 and \$560,330, respectively, equal to the required contributions for each year.

The MPERS also provides for death and disability benefits which are established by state statute. Under the MPERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program they must continue until completion of the purchase of the service credit or termination of employment from Alcona Community Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPERS. Employee contributions to the TDP program totaled \$56,872 for the year ended June 30, 2005.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 11 - RETIREMENT PLANS (CONTINUED)

Deferred Compensation Plans (Continued)

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$169,116 for the year ended June 30, 2005. The assets of the plan are administered and held by various approved third party financial institutions.

NOTE 12 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. The amount due as of June 30, 2005 was \$2,909 which is included in the accounts payable balance on Exhibit A.

NOTE 13 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 14 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.



ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 15 - CONTINGENCIES AND COMMITMENTS

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2005, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources:				
Current property taxes	\$ 4,271,174	\$ 4,330,205	\$ 4,289,955	\$ (40,250)
Medicaid fee for service	41,027	37,468	41,207	3,739
Interest on investments	21,723	21,900	21,820	(80)
Other	100,906	109,177	101,349	(7,828)
State sources	2,666,287	2,961,448	2,729,317	(232,131)
Federal sources	395,901	534,156	538,965	4,809
Interdistrict sources	<u>223,000</u>	<u>185,168</u>	<u>185,168</u>	<u>0</u>
Total revenue	<u>7,720,018</u>	<u>8,179,522</u>	<u>7,907,781</u>	<u>(271,741)</u>
<u>Expenditures</u>				
Current:				
Instruction	5,398,975	5,561,279	5,483,123	78,156
Supporting services	2,404,674	2,656,891	2,600,912	55,979
Capital outlay	<u>147,000</u>	<u>190,316</u>	<u>220,058</u>	<u>(29,742)</u>
Total expenditures	<u>7,950,649</u>	<u>8,408,486</u>	<u>8,304,093</u>	<u>104,393</u>
Excess of revenue over (under) expenditures	<u>(230,631)</u>	<u>(228,964)</u>	<u>(396,312)</u>	<u>(167,348)</u>
<u>Other Financing Sources (Uses)</u>				
Capital lease proceeds	0	0	32,700	32,700
Operating transfers out	<u>(180,700)</u>	<u>(217,700)</u>	<u>(204,241)</u>	<u>13,459</u>
Total other financing sources (uses)	<u>(180,700)</u>	<u>(217,700)</u>	<u>(171,541)</u>	<u>46,159</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(411,331)</u>	<u>(446,664)</u>	<u>(567,853)</u>	<u>(121,189)</u>
Fund balances - beginning of year	<u>1,655,580</u>	<u>1,655,580</u>	<u>1,655,580</u>	<u>0</u>
Fund balances - end of year	<u>\$ 1,244,249</u>	<u>\$ 1,208,916</u>	<u>\$ 1,087,727</u>	<u>\$ (121,189)</u>

## OTHER INFORMATION

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
June 30, 2005

	Food Service Fund	Athletic Fund	1999 Bond	1998 Energy Bond	1999 Capital Project Fund	Total Other Governmental Funds
<u>ASSETS</u>						
Cash and cash equivalents	\$ 10,114	\$ 0	\$ 208,878	\$ 0	\$ 0	\$ 218,992
Receivables:						
Taxes	0	0	5,143	0	0	5,143
Due from other funds	0	0	1,040	0	0	1,040
Inventories	<u>3,161</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,161</u>
Total Assets	<u>\$ 13,275</u>	<u>\$ 0</u>	<u>\$ 215,061</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 228,336</u>
<u>LIABILITIES AND FUND EQUITY</u>						
<u>Liabilities</u>						
Due to other funds	\$ 9,168	\$ 0	\$ 74	\$ 0	\$ 0	\$ 9,242
Deferred revenue	<u>1,366</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,366</u>
Total liabilities	<u>10,534</u>	<u>0</u>	<u>74</u>	<u>0</u>	<u>0</u>	<u>10,608</u>
<u>Fund Equity</u>						
Fund balances:						
Reserved:						
Debt service	0	0	214,987	0	0	214,987
Unreserved, reported in:						
Special revenue funds	<u>2,741</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,741</u>
Total fund equity	<u>2,741</u>	<u>0</u>	<u>214,987</u>	<u>0</u>	<u>0</u>	<u>217,728</u>
Total Liabilities and Fund Equity	<u>\$ 13,275</u>	<u>\$ 0</u>	<u>\$ 215,061</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 228,336</u>

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2005

	Food Service Fund	Athletic Fund	1999 Bond	1998 Energy Bond	1999 Capital Project Fund	Total Other Governmental Funds
<u>Revenue</u>						
Local Sources:						
Current property taxes	\$ 0	\$ 0	\$ 705,482	\$ 0	\$ 0	\$ 705,482
Lunch sales	205,783	0	0	0	0	205,783
Gate receipts	0	25,816	0	0	0	25,816
Interest on investments	474	0	3,428	0	18	3,920
Other	1,070	4,385	0	0	0	5,455
State sources	31,201	0	0	0	0	31,201
Federal sources	242,529	0	0	0	0	242,529
Total revenue	<u>481,057</u>	<u>30,201</u>	<u>708,910</u>	<u>0</u>	<u>18</u>	<u>1,220,186</u>
<u>Expenditures</u>						
Current:						
Food services	516,912	0	0	0	0	516,912
Athletics	0	145,056	0	0	0	145,056
Debt Service:						
Principal	0	0	300,000	70,000	0	370,000
Interest and fees	0	0	212,044	14,346	0	226,390
Contribution to debt service	0	0	283,000	0	0	283,000
Capital outlay	0	0	0	0	20,363	20,363
Total expenditures	<u>516,912</u>	<u>145,056</u>	<u>795,044</u>	<u>84,346</u>	<u>20,363</u>	<u>1,561,721</u>
Excess of revenue over (under) expenditures	(35,855)	(114,855)	(86,134)	(84,346)	(20,345)	(341,535)
<u>Other Financing Sources</u>						
Operating transfers in	<u>4,000</u>	<u>114,855</u>	<u>0</u>	<u>84,346</u>	<u>1,040</u>	<u>204,241</u>
Excess of revenue and other sources over (under) expenditures	(31,855)	0	(86,134)	0	(19,305)	(137,294)
Fund balances - beginning of year	<u>34,596</u>	<u>0</u>	<u>301,121</u>	<u>0</u>	<u>19,305</u>	<u>355,022</u>
Fund balances - end of year	<u>\$ 2,741</u>	<u>\$ 0</u>	<u>\$ 214,987</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 217,728</u>

INDIVIDUAL FUND SCHEDULES

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

GENERAL FUND  
 DETAILS OF REVENUE COMPARED TO BUDGET  
 For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

	2005		2004
	Budget	Actual	Actual
<u>Local Sources</u>			
Current property taxes	\$ 4,330,205	\$ 4,289,955	\$ 4,093,079
Medicaid fee for service	37,468	41,207	47,933
Interest on investments	21,900	21,820	8,355
Other	109,177	101,349	98,729
Total revenue from local sources	<u>4,498,750</u>	<u>4,454,331</u>	<u>4,248,096</u>
<u>State Sources</u>			
State school aid	2,919,027	2,690,881	3,010,568
Driver education grant	0	0	7,131
Early childhood program	29,700	29,700	29,700
Vocational education	12,721	8,736	10,691
Total revenue from state sources	<u>2,961,448</u>	<u>2,729,317</u>	<u>3,058,090</u>
<u>Federal Sources</u>			
E.C.I.A., Title I	256,945	256,945	287,716
E.C.I.A., Title II - Part D	6,530	6,530	6,248
E.C.I.A., Title V	11,558	11,558	14,547
E.C.I.A., Title II - Part A	72,538	72,538	74,763
Drug-free grant	7,237	6,253	7,407
Headstart	40,000	40,000	38,550
Strong families/safe children	7,877	7,861	13,552
Comprehensive school reform	100,000	101,824	84,863
Perkins grant	0	3,985	0
Schools and roads grant funds	31,471	31,471	31,199
Total revenue from federal sources	<u>534,156</u>	<u>538,965</u>	<u>558,845</u>
<u>Interdistrict Sources</u>			
Special education and other programs	<u>185,168</u>	<u>185,168</u>	<u>207,153</u>
<u>Other Financing Sources</u>			
Capital lease proceeds	<u>0</u>	<u>32,700</u>	<u>0</u>
Total Revenue and Other Financing Sources	<u>\$ 8,179,522</u>	<u>\$ 7,940,481</u>	<u>\$ 8,072,184</u>



ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

<u>Instruction</u>	2005		2004
	Budget	Actual	Actual
Elementary Schools:			
Professional salaries	\$ 1,222,865	\$ 1,220,116	\$ 1,183,168
Non-professional salaries	51,510	51,325	44,881
Insurance	275,111	287,614	231,145
FICA/retirement	265,800	270,398	246,510
Other benefits	1,856	248	33,753
Purchased services	111,100	112,168	78,620
Materials and supplies	45,092	44,156	16,079
Repairs and maintenance	21,500	17,439	19,337
Other	28,600	15,764	1,065
Total elementary schools	<u>2,023,434</u>	<u>2,019,228</u>	<u>1,854,558</u>
Middle/Junior High School:			
Professional salaries	557,800	535,789	502,890
Non-professional salaries	34,540	26,079	26,906
Insurance	143,620	145,249	125,099
FICA/retirement	124,176	120,034	104,363
Other benefits	0	0	2,097
Purchased services	10,000	5,065	7,599
Materials and supplies	7,300	8,237	4,563
Other	1,200	1,962	978
Total middle/junior high school	<u>878,636</u>	<u>842,415</u>	<u>774,495</u>
High School:			
Professional salaries	976,904	972,279	868,601
Non-professional salaries	53,925	59,766	59,936
Insurance	306,875	323,747	260,289
FICA/retirement	153,984	151,921	119,009
Other benefits	4,250	2,909	22,001
Purchased services	40,650	23,939	25,423
Materials and supplies	43,520	28,821	29,777
Repairs and maintenance	2,000	1,800	3,389
Other	9,737	7,439	9,542
Total high school	<u>1,591,845</u>	<u>1,572,621</u>	<u>1,397,967</u>
Preschool:			
Purchased services	<u>29,700</u>	<u>29,700</u>	<u>29,700</u>
Special Education:			
Professional salaries	240,411	231,582	294,927
Non-professional salaries	215,090	201,215	84,040

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

	2005		2004
	Budget	Actual	Actual
<u>Instruction</u> (Continued)			
Special Education: (Continued)			
Insurance	\$ 116,478	\$ 127,389	\$ 106,695
FICA/retirement	99,995	93,434	77,073
Other benefits	0	347	19,163
Purchased services	34,000	33,821	0
Materials and supplies	2,500	1,810	3,007
Total special education	<u>708,474</u>	<u>689,598</u>	<u>584,905</u>
Compensatory Education:			
Professional salaries	118,597	118,527	142,855
Non-professional salaries	8,690	8,725	32,579
Insurance	36,043	35,167	34,693
FICA/retirement	32,302	34,327	32,431
Purchased services	11,853	11,853	1,554
Materials and supplies	0	0	5,104
Total compensatory education	<u>207,485</u>	<u>208,599</u>	<u>249,216</u>
Vocational Education:			
Professional salaries	37,782	37,782	36,907
Non-professional salaries	21,000	18,452	20,351
Insurance	19,930	19,421	20,744
FICA/retirement	13,263	13,251	12,330
Purchased services	16,200	16,552	30,335
Materials and supplies	7,000	8,974	21,210
Total vocational education	<u>115,175</u>	<u>114,432</u>	<u>141,877</u>
Technology:			
Purchased services	<u>6,530</u>	<u>6,530</u>	<u>6,248</u>
Total Instruction	<u>5,561,279</u>	<u>5,483,123</u>	<u>5,038,966</u>
<u>Supporting Services</u>			
Guidance Services:			
Professional salaries	100,517	98,364	84,016
Non-professional salaries	30,000	29,741	29,676
Insurance	20,785	20,589	15,151
FICA/retirement	17,600	17,516	15,654
Materials and supplies	1,000	615	639
Total guidance services	<u>169,902</u>	<u>166,825</u>	<u>145,136</u>
Health:			
Purchased services	<u>15,031</u>	<u>15,031</u>	<u>14,593</u>

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

	2005		2004
	Budget	Actual	Actual
<u>Supporting Services</u> (Continued)			
Improvement of Instruction:			
Materials and supplies	\$ 34,100	\$ 28,382	\$ 97,732
Library:			
Professional salaries	0	0	1,649
Non-professional salaries	30,000	27,380	33,746
Insurance	22,538	21,732	24,384
FICA/retirement	6,760	6,073	7,272
Purchased services	1,000	611	0
Materials and supplies	3,000	2,519	1,597
Total library	63,298	58,315	68,648
Board of Education:			
Professional salaries	4,000	5,019	1,550
Purchased services	42,000	35,207	42,825
Total board of education	46,000	40,226	44,375
Executive Administration:			
Professional salaries	99,251	97,964	91,270
Insurance	15,845	13,664	13,371
FICA/retirement	21,900	21,967	19,058
Other benefits	9,280	8,103	7,161
Purchased services	25,500	15,807	26,256
Total executive administration	171,776	157,505	157,116
Office of the Principal:			
Professional salaries	214,953	214,951	206,767
Non-professional salaries	125,000	123,680	122,219
Insurance	70,996	73,453	69,798
FICA/retirement	76,900	75,943	69,049
Other benefits	9,550	7,523	7,906
Other	1,500	1,566	1,962
Total office of the principal	498,899	497,116	477,701
Fiscal Services:			
Non-professional salaries	93,125	93,003	91,979
Insurance	17,120	16,454	14,589
FICA/retirement	20,450	20,387	19,421

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

	2005		2004
	Budget	Actual	Actual
<u>Supporting Services</u> (Continued)			
Fiscal Services: (Continued)			
Other benefits	\$ 0	\$ 0	\$ 4,917
Purchased services	39,500	40,269	37,779
Materials and supplies	8,100	6,915	6,009
Repairs and maintenance	7,000	6,857	2,012
Other	26,000	24,420	27,945
Total fiscal services	211,295	208,305	204,651
Fixed Charges:			
Purchased services	53,500	53,226	52,182
Operating and Maintenance:			
Professional salaries	105,775	104,858	101,898
Non-professional salaries	141,100	140,987	131,846
Insurance	58,290	58,278	70,515
FICA/retirement	54,850	53,799	48,748
Other benefits	28,300	28,563	30,805
Purchased services	34,500	30,787	18,837
Materials and supplies	230,300	230,613	194,420
Repairs and maintenance	43,784	42,062	31,357
Other	2,500	3,229	2,818
Total operating and maintenance	699,399	693,176	631,244
Transportation:			
Professional salaries	96,025	89,989	89,877
Non-professional salaries	210,400	203,968	195,971
Insurance	128,200	124,447	119,439
FICA/retirement	69,066	63,727	57,610
Other benefits	500	520	791
Purchased services	8,000	8,801	9,186
Materials and supplies	70,000	79,510	70,231
Repairs and maintenance	0	602	9,200
Other	4,000	4,590	4,123
Total transportation	586,191	576,154	556,428
Central Services:			
Purchased services	107,500	106,651	104,987
Total Supporting Services	2,656,891	2,600,912	2,554,793

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

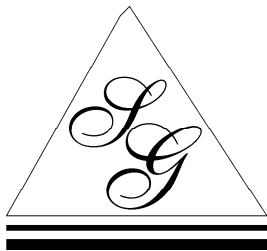
GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

	2005		2004
	Budget	Actual	Actual
<u>Capital Outlay</u>			
Instruction:			
Elementary	\$ 0	\$ 10,900	\$ 0
Junior High	0	10,900	0
High School	0	10,900	0
Supporting services:			
Operating and Maintenance	36,216	33,258	0
Transportation	154,100	154,100	0
Total Capital Outlay	190,316	220,058	0
<u>Other Financing Uses</u>			
Operating transfers out	217,700	204,241	161,701
Total Expenditures and Other Financing Uses	\$ 8,626,186	\$ 8,508,334	\$ 7,755,460

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

ALL SPECIAL REVENUE FUNDS  
STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
For the Year Ended June 30, 2005

	Food Service Fund			Athletic Fund			Totals		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenue</u>									
Local Sources:									
Lunch sales	\$ 204,912	\$ 205,783	\$ 871	\$ 0	\$ 0	\$ 0	\$ 204,912	\$ 205,783	\$ 871
Gate receipts	0	0	0	26,415	25,816	(599)	26,415	25,816	(599)
Interest on investments	475	474	(1)	0	0	0	475	474	(1)
Other	1,074	1,070	(4)	4,385	4,385	0	5,459	5,455	(4)
State sources	20,000	31,201	11,201	0	0	0	20,000	31,201	11,201
Federal sources	180,000	242,529	62,529	0	0	0	180,000	242,529	62,529
Total revenue	<u>406,461</u>	<u>481,057</u>	<u>74,596</u>	<u>30,800</u>	<u>30,201</u>	<u>(599)</u>	<u>437,261</u>	<u>511,258</u>	<u>73,997</u>
<u>Expenditures</u>									
Current:									
Food services	406,461	516,912	(110,451)	0	0	0	406,461	516,912	(110,451)
Athletics	0	0	0	160,000	145,056	14,944	160,000	145,056	14,944
Total expenditures	<u>406,461</u>	<u>516,912</u>	<u>(110,451)</u>	<u>160,000</u>	<u>145,056</u>	<u>14,944</u>	<u>566,461</u>	<u>661,968</u>	<u>(95,507)</u>
Excess of revenue over (under) expenditures	0	(35,855)	(35,855)	(129,200)	(114,855)	14,345	(129,200)	(150,710)	(21,510)
<u>Other Financing Sources</u>									
Operating transfers in	<u>4,000</u>	<u>4,000</u>	<u>0</u>	<u>129,200</u>	<u>114,855</u>	<u>(14,345)</u>	<u>133,200</u>	<u>118,855</u>	<u>(14,345)</u>
Excess of revenue and other sources over (under) expenditures	4,000	(31,855)	(35,855)	0	0	0	4,000	(31,855)	(35,855)
Fund balances - beginning of year	<u>34,596</u>	<u>34,596</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>34,596</u>	<u>34,596</u>	<u>0</u>
Fund balances - end of year	<u>\$ 38,596</u>	<u>\$ 2,741</u>	<u>\$ (35,855)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 38,596</u>	<u>\$ 2,741</u>	<u>\$ (35,855)</u>



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

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Herman A Bertuleit, CPA

August 25, 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education  
Alcona Community Schools  
Alcona County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alcona Community Schools, Alcona County, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the School district's basic financial statements and have issued our report thereon dated August 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

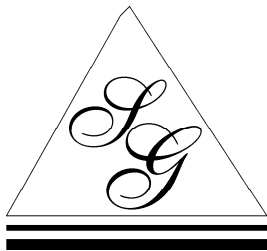
In planning and performing our audit, we considered the Alcona Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alcona Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of Alcona Community Schools, in a separate letter dated August 25, 2005.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, pass-through entities and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*



# Stephenson Gracik & Co., P.C.

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-----  
Herman A Bertuleit, CPA

August 25, 2005

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Alcona Community Schools  
Alcona County, Michigan

### Compliance

We have audited the compliance of Alcona Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Alcona Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Alcona Community Schools' management. Our responsibility is to express an opinion on Alcona Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Alcona Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Alcona Community Schools' compliance with those requirements.

In our opinion, Alcona Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### Internal Control Over Compliance

The management of Alcona Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Alcona Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, pass-through entities and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*



ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2005

Findings - Financial Statements Audit

There were no findings related to the financial statements audit for the year ended June 30, 2004.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award programs audit for the year ended June 30, 2004.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2005

1. The auditors' report expresses an unqualified opinion on the financial statements of Alcona Community Schools.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Alcona Community Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Alcona Community Schools expresses an unqualified opinion on all major federal programs.
6. The auditors' report disclosed no instances of findings relative to the major federal award programs of Alcona Community Schools.
7. The program tested as a major program was: Title I, CFDA #84.010.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Alcona Community Schools qualified as a low-risk auditee.

Findings - Financial Statements Audit

There were no findings related to the financial statements audit for the year ended June 30, 2005.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award programs audit for the year ended June 30, 2005.

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2005

Federal Grantor or Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Grantors Number	Program or Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2004	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2005
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>								
Child Nutrition Cluster -								
Passed through the Michigan Department of Education:								
National School Breakfast Program	10.553							
Breakfast 2003/2004		041970	\$ 34,590	\$ 28,899	\$ 5,691	\$ 3,750	\$ 9,441	\$ 0
Breakfast 2004/2005		051970	36,161	0	0	36,161	36,161	0
			<u>70,751</u>	<u>28,899</u>	<u>5,691</u>	<u>39,911</u>	<u>45,602</u>	<u>0</u>
Passed through the Michigan Department of Education:								
National School Lunch Program	10.555							
Section 4 2003/2004		041950	22,135	19,431	3,221	2,704	5,925	0
Section 4 2004/2005		051950	20,720	0	0	20,720	20,720	0
Section 11 2003/2004		041960	107,256	93,240	14,960	14,015	28,975	0
Section 11 2004/2005		051960	102,569	0	0	102,569	102,569	0
Fruit and Vegetable Pilot Program		030950	15,211	15,211	3,146	0	3,146	0
Fresh Fruit and Vegetable Program		050950	26,974	0	0	26,974	23,578	3,396
			<u>294,865</u>	<u>127,882</u>	<u>21,327</u>	<u>166,982</u>	<u>184,913</u>	<u>3,396</u>
Total Child Nutrition Cluster			<u>365,616</u>	<u>156,781</u>	<u>27,018</u>	<u>206,893</u>	<u>230,515</u>	<u>3,396</u>
Passed through the Michigan Department of Education:								
Food Distribution for National Lunch or Breakfast Programs:								
Commodities -	10.550							
Entitlement		01010	28,197	0	0	28,197	28,197	0
Bonus Commodities		01010	7,439	0	0	7,439	7,439	0
			<u>35,636</u>	<u>0</u>	<u>0</u>	<u>35,636</u>	<u>35,636</u>	<u>0</u>
Passed through Alcona County:								
Schools and Roads Grants to States	10.665		<u>28,273</u>	<u>0</u>	<u>0</u>	<u>28,273</u>	<u>28,273</u>	<u>0</u>
<b>Total U.S. Department of Agriculture</b>			<u>429,525</u>	<u>156,781</u>	<u>27,018</u>	<u>270,802</u>	<u>294,424</u>	<u>3,396</u>

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2005

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantors Number</u>	<u>Program or Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2004</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2005</u>
<b>U.S. DEPARTMENT OF EDUCATION:</b>								
Passed through the Michigan Department of Education: Title I - Part A	84.010	051530 0405	\$ 256,945	\$ 0	\$ 0	\$ 256,945	\$ 200,000	\$ 56,945
Passed through Alpena Schools Perkins Grant	84.048		3,985	0	0	3,985	3,985	0
Passed through the Michigan Department of Education: Safe and Drug Free Schools	84.186	052860 0405	7,237	0	0	6,253	6,500	(247)
Passed through the Michigan Department of Education: Title V Part A Innovative	84.298	050250 0405	11,558	0	0	11,558	7,516	4,042
Passed through the Michigan Department of Education: Title II Part D Ed Tech	84.318	054290 0405	6,530	0	0	6,530	2,500	4,030
Passed through the Michigan Department of Education: Comprehensive School Reform Comprehensive School Reform	84.332	031870 0304 041870 0405	100,000 100,000 200,000	84,863 0 84,863	(15,137) 0 (15,137)	15,137 86,687 101,824	0 72,000 72,000	0 14,687 14,687
Passed through the Michigan Department of Education: Title II Part A - Improving Teacher Quality	84.367	050520 0405	72,538	0	0	72,538	48,500	24,038
<b>Total U.S. Department of Education</b>			<b>558,793</b>	<b>84,863</b>	<b>(15,137)</b>	<b>459,633</b>	<b>341,001</b>	<b>103,495</b>

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2005

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantors Number</u>	<u>Program or Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2004</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2005</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>								
Passed through the Michigan Family Independence Agency: Promoting Safe and Stable Families	93.556	SFSC-03-01001	\$ 11,000	\$ 0	\$ 0	\$ 7,861	\$ 7,861	\$ 0
Passed through Northeast Michigan Community Service Agency: Head Start	93.600		40,000	0	0	40,000	30,000	10,000
<b>Total U.S. Department of Health and Human Services</b>			51,000	0	0	47,861	37,861	10,000
<b>Total Federal Awards</b>			\$ 1,039,318	\$ 241,644	\$ 11,881	\$ 778,296	\$ 673,286	\$ 116,891

ALCONA COMMUNITY SCHOOLS  
Alcona County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2005

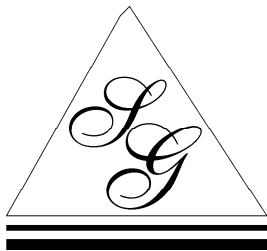
Notes

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule with the exception of a draw not received until July, but included in the June 30, 2005 payments on the R7120, Grants Section Auditors' Report as follows:

Fresh Fruit and Vegetable Program 050950	\$ 3,396
Title I - Part A 051530 0405	35,000
Title V Part A Innovative 050250 0405	4,042
Comprehensive School Reform 041870 0405	28,000
Title II Part A - Improving Teacher Quality 050520 0405	24,038
	<u>\$ 94,476</u>

4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
5. Expenditures include spoilage or pilferage.
6. Reconciliation to the financial statements:

General Fund	\$ 538,965
Special Revenue Funds:	
Food Service Fund	242,529
Federal revenue from oil and gas royalties, included in General Fund total above, not subject to Single Audit reporting requirements	<u>(3,198)</u>
Current Year Expenditures	<u>\$ 778,296</u>



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

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Herman A Bertuleit, CPA

August 25, 2005

Board of Education  
Alcona Community Schools  
Alcona County, Michigan

Dear Board Members:

We have audited the financial statements of Alcona Community Schools for the year ended June 30, 2005, and have issued our report thereon dated August 25, 2005. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 8, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Alcona Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Alcona Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Alcona Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Alcona Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Alcona Community Schools' compliance with those requirements.

## Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Alcona Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Alcona Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Alcona Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments proposed, whether recorded or unrecorded by Alcona Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require that consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Alcona Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our tests of controls and compliance as described in the third and fourth paragraphs, one matter came to our attention upon which we would like to comment and offer the following recommendations.

Budget Control

We noted that the School District's General Fund and Special Revenue Funds included expenditures in some functions that exceeded appropriated amounts. We recommend that the Board of Education continue to amend the budgets for all funds periodically as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the School District.

This information is intended solely for the use of the Board of Education, management, federal awarding agencies, pass-through entities and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grunh & Co., P.C.*